R E I T

STABILITY THROUGH DISCIPLINE

H&R REIT 2002 ANNUAL REPORT

H&R REAL ESTATE INVESTMENT TRUST

Incorporated in November 1996, H&R Real Estate Investment Trust (H&R REIT) owns and manages a portfolio of income-producing properties, and provides mezzanine financing for development projects.

As a closed-end REIT, a substantial portion of H&R REIT's cash is distributed to unitholders each month and much of it is tax deferred.

The REIT's internal management conducts day-to-day operations under the direction of the Board of Trustees. Investment opportunities are subject to specific guidelines and approval of the Trustees.

Units of the Trust trade on the Toronto Stock Exchange (Symbol: HR.UN).

PRIMARY OBJECTIVES

H&R REIT has two primary objectives:

Provide unitholders with reliable and growing cash distributions from its portfolio of income-producing properties and development projects

Increase the value of units through active management of the REIT's assets and the accretive acquisition of additional properties, including developments in which the REIT exercises its purchase options

Management is committed to maximizing cash distributions and capital appreciation for unitholders while maintaining prudent risk management and conservative use of financial leverage.

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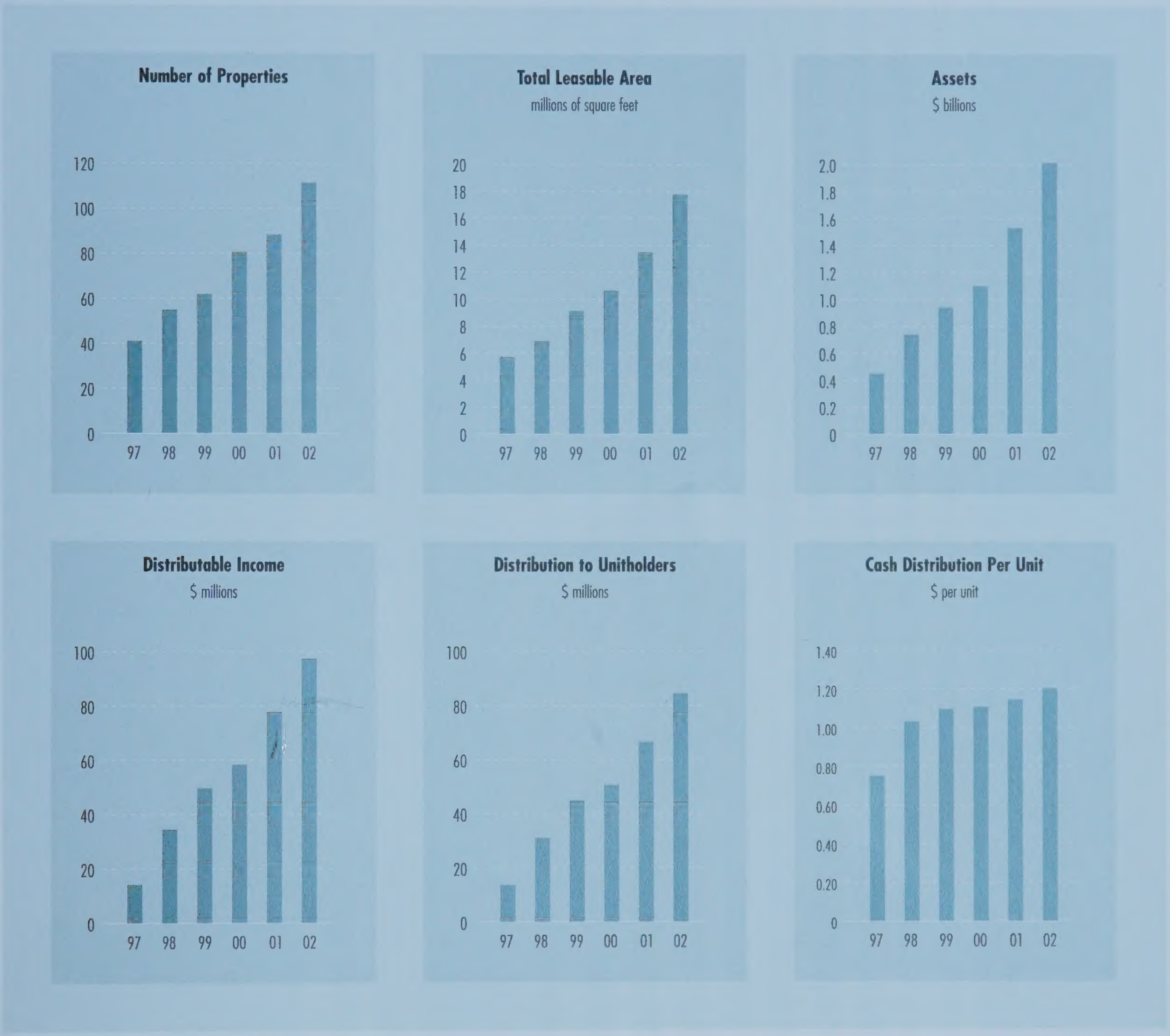
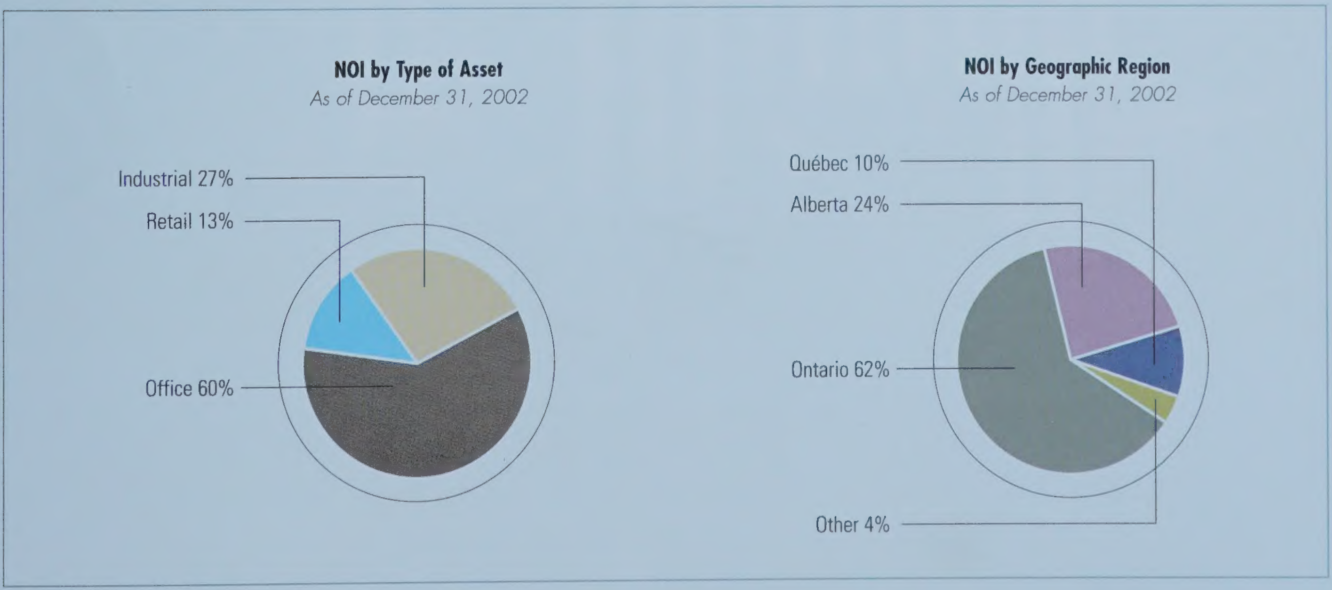
Highlights

STABLE DISTRIBUTIONS FROM QUALITY ASSETS PRODUCING INCREASING VALUE





PLACE BELL CANADA

Location OTTAWA, ONTARIO **Rentable Area** 991,000 SQUARE FEET, DOWNTOWN OFFICE TOWER

Highlights H&R REIT ENTERED THE NATION'S CAPITAL IN MARCH 2002 BY ACQUIRING THIS 27-STOREY OFFICE TOWER FOR $224 MILLION.

President's Message

2002 HIGHLIGHTS

Commercial real estate markets softened across North America last year as a weakening economy took its toll on vacancy levels and rental rates. Nevertheless, H&R Real Estate Investment Trust continued to increase the size, quality and geographical diversification of its portfolio as well as the ***consistent*** distributable income it generates.

We managed to maintain our overall occupancy rate at an extraordinary 99%, and lengthened the average term to maturity of our leases and mortgages, while reducing the average age of our buildings to less than 12 years.

H&R acquired a net $548 million of core-business properties last year, making a positive, accretive contribution to our bottom line. In the process, we further ***diversified*** our asset base geographically by entering the Ottawa and U.S. markets.

While assets increased by 34% during 2002 to $2.1 billion, revenue rose 39% to $297 million, and operating income (before interest, depreciation, amortization and trust expenses) increased 33%. Net earnings finished the year at $84 million, up 22%, or $1.20 per unit, whereas Distributable Income per unit rose 3.7% to $1.39.

H&R REPRESENTS STABILITY AND SECURITY

We focus our conservative decision-making and investment philosophy within the framework of a ***disciplined operating and growth strategy that is proven to provide stability and security*** to our unitholders. H&R invests in quality assets and tenants, backed by long-term leases matched with equally long-term financing, thereby protecting our income stream from the cyclical nature of the real estate industry and volatility in interest rates.

INVESTING IN QUALITY

To ensure the quality of its income stream, H&R focuses its investments in ***well-located commercial properties occupied by creditworthy tenants***. Our office, industrial and retail properties are professionally managed, generic buildings, primarily located in Canada's key urban markets. These are hard, safe assets, leased on a long-term basis to well-established companies with strong credit ratings, in a variety of business sectors. Our top five tenant-customers are the blue chip companies Bell Canada, TransCanada PipeLines, Purolator Courier, Finning International, and Royal Bank, with the balance of the portfolio leased to equally impressive companies.

A prestigious portfolio and stellar tenant base produce ***high occupancy rates and rising rental rates*** through contractual rent escalations. We managed to close 2002 with occupancy levels of 97% for office space, 100% for industrial premises and 99% for retail space.

BELL CANADA COMPLEX

Location MISSISSAUGA, ONTARIO **Rentable Area** 526,000 SQUARE FEET, SUBURBAN OFFICE COMPLEX

Highlights H&R REIT PROVIDED MEZZANINE FINANCING FOR THE DEVELOPMENT OF THIS PRESTIGIOUS PROJECT, ACQUIRED IT IN FEBRUARY 2002, AND ASSUMED NON-RECOURSE FINANCING WITH A 20-YEAR TERM, PRODUCING A RETURN ON EQUITY OF 13%. A 226,000 SQUARE FOOT EXPANSION IS CURRENTLY UNDER CONSTRUCTION AND PLANNED TO OPEN IN JULY 2004.

H&R has progressively increased the average maturity of its mortgages in tandem with the maturity of its leases.

Our strategically located properties, many leased to tenants with investment grade credit ratings, are appreciating in market value. This gradual appreciation increases the Net Asset Value of our portfolio, which augments the premium that an investor is willing to pay for our units.

The quality of our assets, and of the income stream they generate, have allowed us to maintain a **very strong balance sheet**. The ratio of H&R's debt to gross book value at year-end was 59% (well below our self-imposed guideline of maximum 65%) and 42% of our debt is non-recourse.

H&R's continued success is also attributable to the dependability of its people – seasoned commercial real estate professionals. Our top management team has an average 25 years of experience in the industry, and is guided by a qualified Board of Trustees, whose independent members chair all of our Board committees.

GENERATING CONSISTENT GROWTH

Through our timely acquisitions and mezzanine financing program, we have increased the number of income-producing properties in our portfolio. This has brought our total leasable area to 17.8 million square feet. During the 2002 fiscal year, the gross book value of the portfolio rose 39% to $2.0 billion, and Unitholders' Equity increased 2%.

We continued to take a **disciplined approach toward acquisitions**, purchasing properties with an initial levered return that is at least three hundred basis points over our cost of capital, with the return growing over time through contractual rental increases. For the $598 million of acquisitions in 2002 (including the Bell Canada Complex, Place Bell Canada, Nova Chemicals Buildings, the Circuit City Distribution Center, and Lowe's Home Improvement Centers), our weighted average levered return was approximately 15%.

By methodically adding quality assets to our portfolio, we have generated steady growth in distributions and yield, as the following table indicates.

	1997*	1998	1999	2000	2001	2002	1997-2002 Compound Growth Rate
Distributable Income Per Unit	$ 0.88	$ 1.15	$ 1.24	$ 1.28	$ 1.34	$ 1.39	9.3%
Distributions Per Unit	$ 0.79	$ 1.03	$ 1.10	$ 1.11	$ 1.16	$ 1.20	8.7%
Payout Ratio	90%	90%	89%	87%	87%	86%	
Yield On $10 IPO Price	7.9%	10.3%	11.0%	11.1%	11.6%	12.0%	

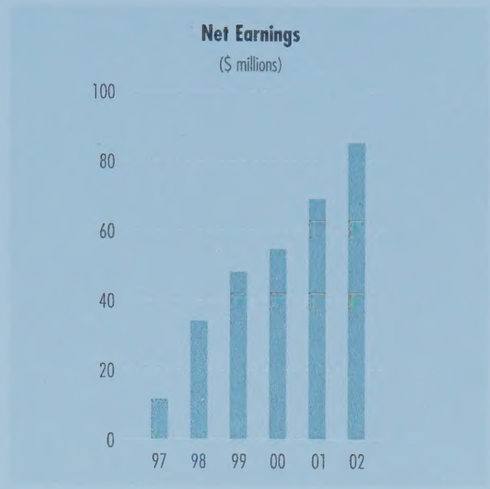
** Converted to a fully paid equivalent basis*

CIRCUIT CITY DISTRIBUTION CENTRE

Location MARION, ILLINOIS **Rentable Area** 1,078,450 SQUARE FEET, INDUSTRIAL DISTRIBUTION FACILITY **Highlights** H&R GENERATED A LEVERED RETURN OF ALMOST 14% AFTER ACQUIRING THIS STATE-OF-THE-ART FACILITY, WHICH IS LEASED FOR A REMAINING TERM OF [illegible] YEARS TO THE SECOND LARGEST RETAILER OF CONSUMER ELECTRONIC PRODUCTS IN AMERICA.

LOWE'S HOME IMPROVEMENT STORES

Locations ATLANTA, GEORGIA AND BIRMINGHAM, ALABAMA **Rentable Area** 129,000 SQUARE FEET AND 135,000 SQUARE FEET RESPECTIVELY, RETAIL STORES **Highlights** H&R REIT ACQUIRED THESE STAND-ALONE RETAIL PROPERTIES, LEASED FOR A REMAINING TERM OF 17 YEARS TO A FORTUNE 500 A-RATED COMPANY, PRODUCING A RETURN ON EQUITY OF ALMOST 14%.



H&R has grown its Net Earnings through accretive acquisitions and astute asset management.

RELIABLE AND PREDICTABLE PERFORMANCE

With a strong record of consistent, positive performance, H&R has become one of Canada's largest and most successful REITs. We produced a total return on investment (including distributions and capital appreciation) of 5.7% for our unitholders in 2002, and 15.9% since inception in 1996. This compares favourably with last year's negative 12% return for the S&P/TSX Composite Index. During the past three years from 2000 to 2002, during which the overall market rose by one third then dropped over 40%, our unit price increased by one third, rather steadily – like the tortoise beating the hare.

As testimony to our performance, real estate investment analysts continue to make favourable recommendations about H&R in their reports to investors, pointing out the REIT's steady and conservative operating strategy, portfolio and tenant quality, stable income stream, limited exposure to risk, growth profile, and relative liquidity.

With **consistent and dependable distributable income and cash distributions to unitholders increasing**, H&R units have been an attractive investment, particularly for mature investors who are tired of volatility and risk. In 2002, our unitholders enjoyed a predictable payout ratio of 86%, and annualized yield of 8 to 9% before tax deferral benefits.

OUTLOOK

Although H&R continues its growth and profitability, real estate fundamentals are moderating. Weaker demand for office and industrial space across Canada has caused increased vacancy rates and limited new construction. But our operating philosophy can withstand the impacts of real estate cycles. With our low lease rollover schedule and the long-term nature of our financing, **we remain very well positioned** to weather any adverse market conditions and to pursue growth in Distributable Income through additional acquisitions and contracted rental escalations.

We at H&R REIT are confident that our operating strategy represents a solid foundation from which we can produce attractive returns, deliver steady distributions, create long-term value, and continue to earn the trust of our various stakeholders.

To our investors, Board of Trustees, employees and tenants, I extend many thanks for your dedication, valuable contributions and loyalty.

Tom Hofstedter
March 21, 2003

BELL CANADA OFFICE/DATA FACILITIES

Locations TORONTO, ONTARIO AND MONTREAL, QUEBEC **Rentable Area** 911,000 SQUARE FEET, SUBURBAN OFFICE BUILDINGS **Highlights** H&R ACQUIRED THESE RECENTLY RENOVATED, STATE-OF-THE-ART FACILITIES IN 2001 AT A PRICE SUBSTANTIALLY BELOW REPLACEMENT COST, OBTAINING AN 18% LEVERED RETURN ON EQUITY.

TRANSCANADA TOWER ►

Location CALGARY, ALBERTA **Rentable Area** 936,000 SQUARE FEET, DOWNTOWN OFFICE TOWER **Highlights** H&R PROVIDED MEZZANINE FINANCING FOR THE DEVELOPMENT OF THIS CLASS 'A' OFFICE TOWER, ACQUIRED IT IN 2001, AND GENERATED A 17% LEVERED RETURN ON EQUITY.

Portfolio of Properties

Office Properties

As at December 31, 2002

[illegible]	[illegible]	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
160 Elgin Street Ottawa, ON	100%	1971	986,372	95%	Bell Canada, Public Works of Canada, Gowling Strathy, Accenture
450 1st Street, S.W. Calgary, AB	100%	2001	936,000	100%	TransCanada PipeLines
310–320–330 Front Street W. Toronto, ON	70%	1989/1990	591,537	95%	Galileo Canada, National Bank, Royal Bank of Canada, NCR, Laurentian Financial Services
5099 Creekbank Road Mississauga, ON	100%	2002	525,921	100%	Bell Mobility
100 Wynford Drive Toronto, ON	100%	1970/1997	459,171	100%	Bell Canada
200 Bouchard Boulevard Dorval, PQ	100%	1969/1997	451,899	100%	Bell Canada
401–405 The West Mall Etobicoke ON	70%	1983/1985	416,533	95%	Livgroup Investments Inc., Parmalat Foods, Royal Insurance, Gilbey Canada, Blockbuster Canada, Royal Bank of Canada, Geologistics
25 Sheppard Avenue W. North York, ON	70%	1994	360,277	99%	Nestle Canada, Transcontinental Media Inc., Hewitt & Associates, Association of Professional Engineers of Ontario
26 Wellington Street E. Toronto, ON	70%	1981	177,179	96%	Map Info Canada, United Way, Sceptre Investments
55 Yonge Street Toronto, ON	70%	1956/1989	159,295	91%	CIBC, TransCanada PipeLines, CI Mutual Funds
145 Wellington Street W Toronto, ON	70%	1987	154,479	99%	American International Group, Aon Consulting
250 University Avenue Toronto, ON	100%	1958/1997	148,175	73%	HSBC Invest Direct, Aber Diamond Corporation, Longbar Management Services
110 Sheppard Avenue E North York, ON	50%	1993	145,116	100%	Equifax Canada Inc., Wyeth-Ayerst Canada Inc.
2810 Matheson Blvd. E. Mississauga, ON	35%	1990	140,171	97%	Credit Union Central of Ontario, TTI Travel
649 North Service Road Burlington, ON	100%	1991	123,000	100%	Wescam Inc.
2780–2800 Skymark Avenue Mississauga, ON	60%	1988/1990	107,482	79%	CIBC, Robinson & Heath, McDonald's, MSA Canada
6900 Maritz Drive Mississauga, ON	100%	2001	104,689	100%	Maritz Canada Inc.
1235 Bay Street Toronto, ON	100%	1973/2000	95,762	90%	Dental Anesthesia Assoc., Interac Business Centres, Markie Pharmacy
2611 3rd Avenue Calgary, AB	50%	1998	95,465	100%	Telus Advertising Services Inc.
631 South Olive Street* Los Angeles, California	100%	1986	90,112	97%	M.K. Diamonds, Signity Los Angeles
291–295 The West Mall Etobicoke, ON	70%	1978	88,897	81%	Parmalat Food, Investors Group Financial Services
69 Yonge Street Toronto, ON	70%	1914/1988	86,104	78%	Livingston Group, Shoppers Drug Mart, Union Securities
1 Kenview Boulevard Brampton, ON	100%	1989	79,767	100%	Atlantis Aerospace Corp.
88 McNabb Street Markham, ON	70%	1987	74,260	100%	Wyeth-Ayerst Canada Inc.
3625 Dufferin Street North York, ON	70%	1965/1985	71,814	100%	H&R Property Management Ltd., Qualified Financial Services
2767 2nd Avenue Calgary, AB	100%	1998	69,630	100%	DeVry Inc.
131 McNabb Street Markham, ON	100%	1989	54,100	100%	Drug Trading Company Ltd.
			6,793,207	97%	

** Held through a wholly-owned U.S. subsidiary.*

Single-Te[illegible]

As at December 31, 2002

Properties	Ownership Interest	Year [illegible] Renovated	[illegible]	[illegible]	Major Tenants
110 Circuit City Road* Marion, Illinois	100%	2000/2001	1,078,450	100%	Circuit City
2300 Rue Senkus LaSalle, PQ	100%	1972	742,000	100%	Owens-Illinois Canada Corp.
220 Chemin du Tremblay Boucherville, PQ	100%	1999	727,966	100%	Rona Inc.
55 West Drive Brampton, ON	100%	1969/1981	505,565	100%	Winners Apparel Ltd.
500 Palladium Drive Kanata, ON	100%	2000/2001	329,612	100%	Nortel Networks
4441 76th Street Calgary, AB	100%	1980	323,796	100%	UPS Logistics Group Canada Limited
137 Horner Avenue Etobicoke, ON	100%	1962	320,000	100%	Livingston Investments Limited
2121 Cornwall Road Oakville, ON	100%	1997/1998	314,166	100%	UPS Logistics Group Canada Limited
1600 Lionell Boulet Varennes, PQ	100%	1971	311,103	100%	Asea Brown Boveri Inc.
7830 Tranmere Drive Mississauga, ON	100%	1985/1987	265,469	100%	Paperboard Industries Corporation
6580 Millcreek Drive Mississauga, ON	100%	1999	249,634	100%	UPS Logistics Canada Limited
75 Frontenac Drive Markham, ON	100%	1986	243,614	100%	Hyundai Auto Canada
6590 Millcreek Drive Mississauga, ON	100%	1999	225,694	100%	NFC Canada Ltd.
1616 Eiffel Street Boucherville, PQ	100%	1989/2001	186,793	100%	Corporate Express Canada Inc.
30 Aero Drive Calgary, AB	100%	2001	184,377	100%	Purolator Courier Limited
3655 Weston Road Downsview, ON	100%	1970	184,266	100%	Standard Metals
2390 Argentia Road Mississauga, ON	100%	1984	179,085	100%	CRL Company, Golder Associates
16900 107th Avenue, N.W. Edmonton, AB	100%	1961/1988	172,070	100%	Finning International Inc.
6660 Financial Drive Mississauga, ON	100%	1998/1999	164,236	100%	Servi-Logistix Inc.
6735 11th Street, N.E. Calgary, AB	100%	1979	163,899	100%	Finning International Inc.
2928 16th Street, N.E. Calgary, AB	100%	1981/1994	163,280	100%	Nova Chemicals Corporation
1330 Martin Grove Mississauga, ON	100%	1972/2000	162,775	100%	SMG Corp.
351 Passmore Avenue Scarborough, ON	100%	1986	161,137	100%	Samuel, Son & Company Ltd.
10910 170th Street, N.W. Edmonton, AB	100%	1977/1999	154,721	100%	Finning International Inc.
11 Kenview Blvd. Brampton, ON	100%	1989	139,548	100%	Para Paints Canada Inc.
2841 Langstaff Road Vaughan, ON	100%	1996	123,529	100%	All Metal Machine Specialties Limited, Planet Paper Box Inc.
17718 114th Avenue Edmonton, AB	100%	2000	121,315	100%	Purolator Courier Limited
7000 Rue Armand Quebec City, PQ	100%	2000	120,584	100%	Purolator Courier Limited
19196 94th Avenue Surrey, BC	100%	1998/2001	112,819	100%	Finning International Inc.
1350–1380 Matheson Boulevard E. and 5391Ambler Drive, Mississauga, ON	100%	1987	110,059	100%	Minuk Construction and Engineering

Portfolio of Properties

Single-Tenant Industrial Properties *(continued)*

As at December 31, 2002

Property	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
9300 Airport Road Hamilton, ON	100%	2000	93,357	100%	Purolator Courier Limited
200 Chisholm Drive Milton, ON	100%	1991	91,828	100%	Asea Brown Boveri Inc.
1550 Creditstone Road Vaughan, ON	100%	2000	88,584	100%	Purolator Courier Limited
2600 Meadowvale Road Mississauga, ON	100%	2000	84,486	100%	Purolator Courier Limited
10300 Henri Bourassa St. Laurent, PQ	100%	1976/1989	81,500	100%	Asea Brown Boveri Inc.
2 East Beaver Creek Road Richmond Hill, ON	70%	1988	79,024	100%	Minacs WorldWide Inc., Acura Technology
10430 178th Street, N.W. Edmonton, AB	100%	1979	70,676	100%	Finning International Inc.
940 Gateway Drive Burlington, ON	100%	1982	70,218	100%	Cygnal Technologies
6315 Kenway Drive Mississauga, ON	100%	1999	68,678	100%	Winston Steel Inc.
John G. Diefenbaker Airport Saskatoon, SK	100%	2001	66,355	100%	Purolator Courier Limited
1060 Tristar Drive Mississauga, ON	100%	1984	65,284	100%	Invesprint Corp.
118 MacDonald Crescent Fort McMurray, AB	100%	1977	65,169	100%	Finning International Inc.
3620 32nd Street N.E. Calgary, AB	100%	1983/1998	65,120	100%	Nova Chemicals Corporation
1764 & 1776 Kelly Douglas Road Kamloops, BC	100%	1965/1989	64,271	100%	Finning International Inc.
9201 de l'Tnnovation Street Anjou, PQ	100%	2000	62,691	100%	Purolator Courier Limited
6520 Kestrel Road Mississauga, ON	100%	2000	62,217	100%	Purolator Courier Limited
2005 Boul Dagenais Laval, PQ	100%	2000	62,217	100%	Purolator Courier Limited
550 York Road Niagara on the Lake, ON	100%	2000	62,185	100%	Purolator Courier Limited
3104 97th Street Edmonton, AB	100%	2000	62,169	100%	Purolator Courier Limited
880 Milner Avenue Scarborough, ON	70%	1990	60,028	100%	House of Electrical, Lombardi Direct Marketing
2860 Plymouth Drive Oakville, ON	100%	1989	59,613	100%	Kraft Canada Inc.
1 Moyal Court Vaughan, ON	70%	1991	52,792	100%	Wajax Industries
5 Bodrington Court Markham, ON	70%	1994	50,000	100%	Belmont Press
Industrial Park West Peace River, AB	100%	1970	44,668	100%	Finning International Inc.
5321 11th Street N.E. Calgary, AB	100%	1991	43,000	100%	Olympic Seismic Ltd.
360 Spinnaker Way Vaughan, ON	70%	1995	41,944	100%	The Packaging Group
2815 Matheson Blvd. E Mississauga, ON	70%	1987	40,000	100%	ADT Security Services
380 Spinnaker Way Vaughan, ON	70%	1995	33,017	100%	Topax Export Packaging
4248 14th Avenue Markham, ON	70%	1994	32,708	100%	Linsey Foods Limited
749 Douglas Fir Road Sparwood, BC	100%	1978	31,784	100%	Finning International Inc.
300 Biscayne Crescent Brampton, ON	70%	1996	31,606	100%	Dicom Express Inc.
6740 67th Avenue Red Deer, AB	100%	1975	30,655	100%	Finning International Inc.

PORTFOLIO OF PROPERTIES

Single-Tenant Industrial Properties

As at December 31, 2002

Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
1604 & 1720 Willow Street Campbell River, BC	100%	1980	30,000	100%	Finning International Inc.
19498 92nd Avenue Surrey, BC	100%	1992	28,621	100%	Finning International Inc.
45 Bodrington Court Markham, ON	70%	1992	28,089	100%	Canada Bread Company Limited
450 Mackenzie Avenue S. & 265 Fifth Avenue Williams Lake, BC	100%	1959/1978	27,321	100%	Finning International Inc.
2400 Matheson Blvd. E. Mississauga, ON	70%	1993	25,273	100%	Givaudan Roure
5230 Orbitor Drive Mississauga, ON	70%	1994	22,000	100%	W.K. Buckley Limited
Mile 49.5 Alaska Highway Fort St. John, BC	100%	1979	21,259	100%	Finning International Inc.
4750 101 Street N.W. Edmonton, AB	100%	1978	20,457	100%	Finning International Inc.
700 Vanalman Avenue Victoria, BC	100%	1990	14,411	100%	Finning International Inc.
R.R. #1, Mile 295 2600 Alaska Highway Fort Nelson, BC	100%	1980	12,399	100%	Finning International Inc.
Total			**10,389,236**	**100**	

** Held through a wholly-owned U.S. subsidiary.*

Retail Properties

As at December 31, 2002

Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
720 Maloney Boulevard W. Gatineau, PQ	100%	1995/1998	283,970	100%	Wal-Mart, Canadian Tire, Metro Richlieu
NorthPointe Towne Centre Calgary, AB	100%	2000	199,502	100%	Famous Players, Canadian Tire
7500 Lundy's Lane Niagara Falls, ON	100%	1999/2001	171,790	98%	Tommy Hilfiger, Levi's, Polo Ralph Lauren, Nike, Danier Leather
220 Chain Lake Drive Halifax, NS	100%	1996/1998	138,027	100%	Wal-Mart
1701 Frederick Road* Opelika, Alabama	100%	1999	135,197	100%	Lowe's Companies, Inc.
4855 Stone Mountain Highway* Lilburn, Georgia	100%	1999	128,997	100%	Lowe's Companies, Inc.
10233 Elbow Drive S.W. Calgary, AB	100%	1993	121,184	88%	Planet Organic, Fabricland, Bank of Montreal
1711 Springfield Road Kelowna, BC	100%	1995	110,178	100%	Rona Revy Inc.
275 Rideau Boulevard Rouyn-Noranda, PQ	20%	1996/1998	104,222	100%	Wal-Mart
2665 32nd Street,N.E. Calgary, AB	100%	1998	89,438	100%	Rona Revy Inc.
110 Bloor Street W. Toronto, ON	100%	1997/1998	86,164	100%	Indigo Books, Nike, Escada, Louis Vuitton
4211 137 Avenue & 4204 137 Avenue Edmonton, AB	100%	1996/1998	55,963	100%	Cineplex Odeon Corporation
61st Avenue & Barlow Trail S.E. Calgary, AB	100%	1998/1999	40,480	100%	Business Depot
Sunridge Plaza Calgary, AB	100%	2000	35,332	100%	Mark's Work Warehouse, CIBC
Total			**1,700,444**	**99%**	

** Held through a wholly-owned U.S. subsidiary.*

PORTFOLIO OF PROPERTIES

Mezzanine Financing for Development

As at December 31, 2002

[illegible]	Property Type	Ownership Option	Expected Completion	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
Eglinton Avenue E. and Dixie Road Mississauga, ON	Office	100%	July 2004	226,000	100%	Bell Mobility
Derry Road and HWY 10 Mississauga, ON	Office	100%	N/A	N/A	N/A	N/A
101 Edgeley Boulevard Vaughan, ON	Retail	50%	N/A	N/A	100% (Wal-Mart only)	Wal-Mart
Front Street W. and John Street Toronto, ON	Office	100%	N/A	N/A	N/A	N/A
				226,000		

Overview of Portfolio

The following summarizes the portfolio of the REIT as at December 31, 2002 (net ownership position)

	Office	Industrial	Retail	Total
Number of Properties	27	72	14	113
Total Leasable Area (square feet)	5,895,448	10,240,292	1,617,066	17,752,806
Occupancy*	97%	100%	99%	99%
Average Rent in Place	$ 17.68	$ 5.23	$ 14.61	$ 10.22
Average Age of Buildings (years)	12.06	12.81	4.53	11.80
Average Interest Rate on Outstanding Mortgages*	7.6%	7.2%	6.9%	7.4%

* *Weighted Average*

Lease Maturities

December 31, 2002

	[illegible]		Industrial		Retail		Total	
[illegible]	[illegible]	[illegible] Rent [illegible] s.f on [illegible]	Percentage [illegible]	Average Rent p.s.f on [illegible]	Percentage of Portfolio*	Average Rent p.s.f on Maturities	Percentage of Portfolio*	Average Rent p.s.f on Maturities
2003	1.21%	$ 14.46	0.10%	$ 12.25	0.14%	$ 18.66	1.45%	$ 14.71
2004	1.27%	$ 19.66	1.64%	$ 5.54	0.10%	$ 20.72	3.01%	$ 12.00
2005	1.83%	$ 17.72	0.23%	$ 6.21	0.25%	$ 15.73	2.31%	$ 16.36
2006	1.62%	$ 14.35	0.44%	$ 5.23	0.23%	$ 19.71	2.29%	$ 13.14
2007	1.63%	$ 26.90	3.59%	$ 5.08	0.07%	$ 33.20	5.29%	$ 12.18
[illegible]	[illegible]	[illegible]	**[illegible]**	**$ 5.38**	**0.79%**	**$ 19.59**	**14.35%**	**$ 13.22**

* *Percent of total leasable area of portfolio*

Debt Maturities

The following table summarizes the debt maturities for the properties of the REIT on a combined basis, exclusive of normal monthly – self amortizing principal repayments

	Office	Industrial	Retail	Total	Percentage of Outstanding Mortgages
2003		1,811		1,811	0.1%
2004	15,801	11,947		27,748	2.2%
2005		19,256		19,256	1.6%
2006	5,331	16,244		21,575	1.7%
2007	11,329	16,566	7,741	35,636	2.9%

Management's Discussion & Analysis

For the year ended December 31, 2002

Overview

H&R Real Estate Investment Trust (the "REIT") is an unincorporated closed-end trust created by a Declaration of Trust and governed by the laws of the Province of Ontario.

The REIT commenced operations on December 23, 1996 with the initial acquisition of a 70% undivided interest in a portfolio of 27 properties, principally located in the Greater Toronto Area. As at December 31, 2002, the REIT owned and operated a portfolio of 113 properties (27 office, 72 single tenant industrial and 14 retail) comprising an aggregate leaseable area of 17.8 million square feet (as calculated at the REIT's level of ownership) and had invested $60.1 million as mezzanine financing for four development projects.

The REIT's portfolio falls into the following geographic regions: 25 industrial properties, three office properties and seven retail properties are located in Western Canada; one industrial property and one office property are located in Eastern Ontario; three industrial properties, one office property and one retail property are located in Central Ontario; eight industrial properties, one office property and three retail properties are located in Eastern Canada (including Quebec); one industrial property, one office property and two retail properties are located in the United States, and the balance of the properties (55) and the four development projects are located in the Greater Toronto Area.

The REIT has two primary objectives:

- to provide Unitholders with stable and growing cash distributions, generated by revenue it derives from investments in income-producing real estate properties; and
- to maximize unit value through ongoing active management of the REIT's assets, acquisitions of additional properties and the provision of mezzanine financing for selected development projects.

Net Earnings and Financial Position

The financial information as at December 31, 2002 and the results of operations for the year then ended are presented in accordance with Canadian generally accepted accounting principles applicable to real estate investment trusts. The following discussion should be read in conjunction with the consolidated financial statements of the REIT and the notes thereto for the years ended December 31, 2002 and 2001.

Result of Operations

Net income for the year ended December 31, 2002 of $84.0 million, or $1.20 per unit, increased by 22.3% on a dollar basis and 1.7% on a per unit basis over the $68.7 million, or $1.18 per unit, for the year ended December 31, 2001. Depreciation of $15.4 million (2001 – $10.9 million) and amortization of $4.1 million (2001 – $2.8 million) are included in the determination of net income. The REIT does not consider depreciation expense when calculating distributions paid to Unitholders.

Quarterly Information

Three-month Periods Ended (unaudited) (000's except per unit amounts)

	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	March 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	March 31, 2001
Rentals from income properties	$ 76,990	$ 73,953	$ 73,178	$ 64,390	$ 56,747	$ 55,206	$ 49,270	$ 37,982
Mortgage interest income and other	1,011	1,243	1,757	3,978	2,295	2,918	3,581	5,115
Earnings from operations	21,302	21,917	22,160	23,015	19,728	18,584	18,171	16,046
Earnings from operations per unit (basic)	0.301	0.310	0.316	0.330	0.300	0.323	0.316	0.309
Net Earnings	20,289	[illegible]	[illegible]	[illegible]	18,719	17,615	17,226	15,134
Net earnings per unit (basic)	0.287	0.295	0.300	0.313	0.285	0.306	0.300	0.291
(diluted)	0.285	0.293	0.298	[illegible]	0.283	0.304	0.298	0.289

Management's Discussion & Analysis

For the year ended December 31, 2002

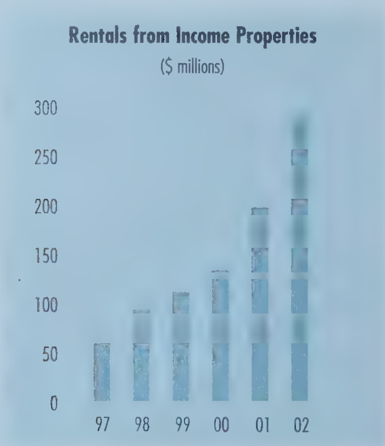
Income From Rental Operations Before Depreciation, Amortization & Trust Expenses

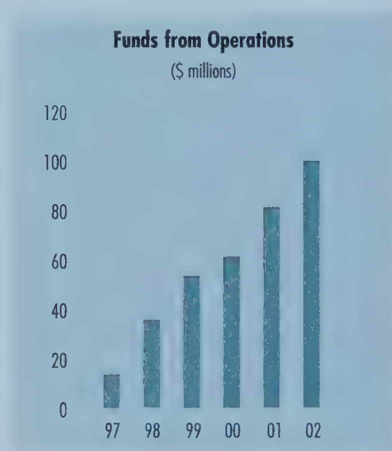
(In thousands of dollars)

	December 31 2002	December 31 2001
Rentals from income properties	$ 288,511	$ 199,205
Mortgage interest income and other	7,989	13,909
	296,500	213,114
Property operating costs	109,398	72,668
Operating income before interest	187,102	140,446
Mortgage and other interest	79,251	54,224
Income from operations before depreciation, amortization & trust expenses	$ 107,851	$ 86,222

Rentals From Income Properties

Rental income from properties increased 44.8% from $199.2 million to $288.5 million in 2002. The increase is primarily a result of the REIT's ongoing strategy of adding to its properties either through acquisitions or its mezzanine financing program. A net total of 26 properties was added during the year in the net amount of $533.4 million. Property operating costs and mortgage and other interest have also increased from $72.7 million and $54.2 million to $109.4 million and $79.3 million respectively in 2002. These increases reflect the increase in activity resulting from the additional properties added to the REIT's portfolio. See "Changes in Financial Position – Income Properties" below.





The occupancy rate in the REIT's portfolio as at December 31, 2002 remains at 99%, unchanged from December 31, 2001. The exposure to lease rollovers as a result of lease expiries over the next 5 years (as a percentage of the REIT owned portion of the properties) is as follows:

2003	2004	2005	2006	2007
1.5%	3.0%	2.3%	2.3%	5.3%

Mortgage Interest and Other Income

The REIT earned $8.0 million in mortgage interest and other income in 2002 compared to $13.9 million in 2001, a decrease of 42.6%. Included in this amount are gains on sale of non-strategic assets of $1.4 million (2001 – $0.8 million). See "Sale of Income Properties" below. This overall decline primarily reflects the reduction in the mortgages receivable asset between December 31, 2001 and 2002 and the reduction to 7.25% from 10% in the interest rate charged on one particular $32 million mortgage receivable effective April 2002. See "Changes in Financial Position – Mortgages Receivable" below.

This trend is likely to continue as more of the REIT's development projects are completed each year with the REIT either exercising its option, in which case the property is acquired, or releasing its option at which time the mezzanine funds are repaid to the REIT. However, this trend could reverse itself if additional development opportunities arise in the future.

Management's Discussion & Analysis

For the year ended December 31, 2002

The weighted average interest earned on these investments in 2002 was approximately 8.8% (2001 – 10.9%). This rate of interest has declined mainly because of the interest reduction to 7.25% per annum on the one mortgage receivable as described above.

Sale of Income Properties

The REIT's philosophy is to dispose of non-strategic assets that no longer fit its investment strategy and then redeploy the proceeds in more attractive investment opportunities.

During the first quarter of 2002, the REIT sold a non-core 294,000 square foot retail property generating a gain of $1.5 million. In the second quarter, the REIT disposed of certain excess industrial lands yielding a $0.2 million gain. Finally, during the fourth quarter of 2002, the REIT disposed of a 11,496 square foot retail property incurring a loss of $0.3 million. The total net gain on sales for 2002 amounted to $1.4 million. During 2001, the REIT disposed of four properties and certain excess land for a gain of $0.8 million.

Trust Expenses

Trust expenses increased slightly from $3.8 million in 2001 to $4.4 million in 2002, a 14.0% increase, which reflects the increase in size and activity of the REIT. These expenses amount to 1.5% of rentals from income properties, down from the previous year's 1.9%, a percentage that is amongst the lowest in the Canadian real estate industry.

Distribution to Unitholders

The REIT is currently required to distribute not less than 80% of its distributable income to Unitholders on a monthly basis. This was reduced from 85% by virtue of a change to the Declaration of Trust adopted at the REIT's annual general and special meeting of Unitholders in May 2001.

Depreciation, accrued rent and other non-cash items are added to, or deducted from, net earnings to determine the amount of income available for distribution. Accrued rent represents the adjustment made to normalize rents for certain tenants whose rental rate increases substantially over the term of their respective leases. This adjustment is required by Canadian generally accepted accounting principles and represents a non-cash item to be deducted in determining distributable income.

Total distributions per unit for 2002, which amounted to 86.2% of distributable income, were $1.199 compared to $1.164 or 86.8% of distributable income in 2001. The tax deferred portion of the distribution was 64% in 2001 and 53% in 2002. The deferral will vary in any given year due to factors such as the size and timing of unit offerings and the acquisition of properties and provision of mezzanine financing for development projects.

Distributable income increased to $97.8 million or $1.391 per unit for the year ended December 31, 2002 from $78.0 million or $1.341 per unit for the same period in 2001. The primary reason for the increase in distributable income on both a dollar and per unit basis was the continuous acquisition of properties by the REIT mainly throughout the last nine months of 2001 and the first quarter of 2002.

Significant assets were purchased during the last nine months of 2001, including the 936,000 square foot TransCanada PipeLines Tower ("TCPL") in Calgary and two Bell Canada data/office centres in Toronto and Montreal comprising approximately 911,000 square feet. These additions to the portfolio had an impact on distributable income for only the last three quarters of 2001 as compared to a whole year for 2002.

Major acquisitions also occurred in the first quarter of 2002. These purchases included the Finning Portfolio and the Place Bell office tower in Ottawa, as well as the exercise of the REIT's option to purchase the Bell Canada complex in Mississauga. See "Changes in Financial Position – Income Properties" below. These acquisitions also contributed to the increase in both distributable income and distributions for the year ended December 31, 2002 compared to December 31, 2001.

In addition, distributable income was enhanced for the year ended December 31, 2002 by $0.020 per unit due to the $1.4 million net gain on sale of non-core properties (see "Sale of Income Properties" above) compared to $0.014 per unit represented by a $0.8 million gain for the same period in 2001. Distributable income was however reduced in the fourth quarter by a one time charge to amortization of $0.4 million or $0.005 per unit relating to the unamortized portion of leasing costs for a tenant that was no longer in occupation of its premises.

Readers are cautioned that distributable income is a non-GAAP measure and should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the REIT's performance. The REIT's method of calculating distributable income may differ from other issuers' methods and accordingly distributable income may not be comparable to measures used by other issuers.

Management's Discussion & Analysis

For the year ended December 31, 2002

Calculation of Distributable Income

(In thousands of dollars)

	December 31, 2002	December 31, 2001
Net earnings	$ 84,022	$ 68,694
Add (deduct): Depreciation	15,395	10,906
Accrued rent	(1,585)	(1,585)
Distributable income	$ 97,832	$ 78,015

Changes In Financial Position

Income Properties The REIT acquired an interest in 28 properties and disposed of two properties during the year. The acquisitions continued the REIT's investment strategy of acquiring quality assets occupied by long-term creditworthy tenants. These assets were acquired by utilizing our short-term acquisition line and long-term fixed rate borrowing.

In January 2002 the REIT acquired the Finning Portfolio, which consisted of seventeen industrial properties comprising 1,065,000 square feet located in Western Canada, for approximately $79 million. In addition, a non-core retail property located in Calgary, Alberta totaling 294,000 square feet was sold for gross proceeds of $48.1 million realizing a profit of $1.5 million.

At the end of February 2002, the REIT exercised its option to acquire the 526,000 square foot Bell Canada complex in Mississauga, Ontario for which it had previously provided mezzanine financing. This office facility is leased for a 20-year term to Bell Mobility. The total cost was approximately $140 million which was satisfied in part by the assumption by the REIT of the matching $115.5 million non-recourse 20-year mortgage bond already in place.

During March 2002, the REIT completed an additional four acquisition transactions totaling $262 million. The largest of these acquisitions was the 27-storey Place Bell office tower in downtown Ottawa, comprising 991,000 square feet. Bell Canada is the largest tenant in this multi-tenant property, occupying 48% of the property for a 20-year lease term. Including Bell, the four largest tenants comprise approximately 90% of the net rental income for the project. The second acquisition was a single tenant sale and leaseback transaction of two industrial properties located in Calgary, Alberta. These locations total 228,000 square feet and are leased for 18 years to Nova Corporation. Thirdly, the REIT exercised its option to purchase a 105,000 square foot facility leased to Maritz Canada in Mississauga, Ontario on a long-term basis. Finally, the REIT purchased a 70,000 square foot industrial property located in Burlington, Ontario which is leased to a creditworthy tenant for a 12-year term.

During the second quarter, the REIT acquired two new properties and disposed of certain excess industrial lands. The first acquisition was a 43,000 square foot industrial property leased for 20 years in Calgary, Alberta. The REIT also acquired a 110,000 square foot retail property in Kelowna, British Columbia leased to Revy/Rona for a term of 19 years. These two properties were acquired by the REIT for $16.0 million.

During July 2002, the REIT acquired a state-of-the-art distribution center located in Marion, Illinois. The property, acquired at a price of approximately $48 million, comprises 1,078,500 square feet and is leased for 19 years to Circuit City, a consumer electronics retailer in the United States.

In October 2002, two free standing retail home improvement stores leased to Lowes Companies Inc. were purchased for $43 million. The stores, comprising 135,197 square feet and 128,997 square feet, are located in Alabama and Georgia respectively. Approximately 17 years remain on both leases. During December, the REIT disposed of a small retail property located in Vaughan, Ontario for $2.5 million.

As a result of these transactions, income properties increased by 38.4% to $1.922 billion at December 31, 2002 from $1.389 billion at December 31, 2001.

Mortgages Receivable The REIT provides mezzanine financing for development projects that are consistent with the REIT's objectives and philosophy. These projects are secured through mortgage financing provided by the REIT, which receives an option to acquire an equity interest in the project. Construction financing is only provided after 70% of the project has been pre-leased. Participation in development projects enables the REIT to acquire high quality, new properties at higher yields than would otherwise be available.

Management's Discussion & Analysis

For the year ended December 31, 2002

At December 31, 2002 there were four projects for which the REIT had provided mezzanine development financing compared to five at December 31, 2001. Although two acquisitions were made during the first quarter through the exercise of the REIT's purchase options, some portion of the mortgage receivable remained outstanding on each transaction due to the fact that not all the available land was utilized in each project and there remains further development potential.

Mortgages receivable decreased 25.4% from $80.6 million at December 31, 2001 to $60.1 million at December 31, 2002. This change is primarily due to two items that occurred in the first quarter of 2002. Firstly, the exercise of the REIT's option on the Bell Canada complex converted $39.8 million from mortgages receivable to income properties (of which approximately $7 million was advanced shortly before closing—thereby having a net $32.8 million effect on the balance). Secondly, the acquisition of the Derry Road project (Maritz) resulted in a $3.0 million reduction in the same manner as the Bell Canada complex.

During the fourth quarter, the REIT finalized a contract to provide the mezzanine financing for the development of Phase II of the Bell Canada complex in Mississauga, Ontario. The project will comprise of a single office building of approximately 226,000 square feet for a total cost of approximately $50 million. No other significant new development projects were funded during the year as the REIT concentrated on the completion of its existing transactions.

Deferred Expenses Deferred expenses increased by $7.8 million from $21.1 million at December 31, 2001 to $28.9 million at December 31, 2002, an increase of 37.1%. The bulk of this increase is due to deferred financing expenses related to the 20-year mortgage bonds placed on the Bell Canada centres in Toronto and Montreal (see "Liabilities" below) during the first quarter of 2002. An additional $2.2 million was incurred during the second quarter relating to two new leases at the 26 Wellington Street and Argentia Road properties for twelve and ten years respectively. There were no significant changes during the balance of 2002.

Other Assets Accounts receivable were not significantly different between December 31, 2001 and December 31, 2002. The increase of $2.9 million reflects the increase in size and activity of the REIT, and relates to amounts receivable arising during the normal course of business.

Certain leases call for rental payments that increase significantly over their term. Accrued rent receivable records the rental revenue from these leases on a straight-line basis, resulting in accruals for rent that are not billable or due until future years. Accrued rent for 2002 represents the adjustment for $1.6 million of rent from the Nestle lease at the property located at 25 Sheppard Avenue West.

This accrual has increased accrued rent receivable by $1.6 million between December 31, 2001 and December 31, 2002 (2001 – $1.6 million) and this asset will continue increasing until 2004 when the balance will begin decreasing until it reaches zero at the lease's maturity in 2019. The annual adjustment for this item affecting the income statement will be removed from the calculation of distributable income each year as it does not represent a cash item.

Prepaid expenses and sundry assets increased from $6.6 million at December 31, 2001 to $11.5 million at December 31, 2002, an increase of 74.4%. This increase is primarily as a result of $1.6 million of development costs being recoverable on the Bell Canada complex, an increase in the amount of deposits on acquisition transactions by $0.6 million as well as an overall increase in the REIT's activities.

Cash and cash equivalents decreased by $14.1 million from $24.3 million at December 31, 2001 to $10.2 million at December 31, 2002. Almost all the cash on hand at December 31, 2001 was used to fund investments in income producing properties. However, due to certain loan requirements on the three non-recourse public mortgage bonds assumed by the REIT on the Bell Canada complex, TCPL tower and Bell office/data centres, as well as the Place Bell mortgage and certain non-recourse US mortgages (see "Liabilities" below), a portion of funds will continue to remain in escrow each month until the expiry of these mortgages. This amounted to $8.3 million at December 31, 2002 as compared to $3.3 million at December 31, 2001.

LIABILITIES

The REIT's Declaration of Trust limits the indebtedness of the REIT to a maximum of 65% of the gross book value of the REIT. This was increased from 60% by virtue of a change to the Declaration of Trust adopted at the REIT's annual general and special meeting of the Unitholders in May 2001. At December 31, 2002 the REIT's indebtedness was 59.3% compared to 47.7% at December 31, 2001.

Management's Discussion & Analysis

For the year ended December 31, 2002

Mortgages Payable Mortgages payable increased by 66.9% from the December 2001 year-end figure of $742.6 million to $1.239 billion at December 31, 2002. This $496.6 million net increase is primarily as a result of five transactions: firstly, the $100 million 20-year non-recourse public bonds secured against two Bell data/office centres in Montreal and Toronto; secondly, the effective assumption of the 20-year non-recourse public bond issued to finance the Bell Canada complex in Mississauga, Ontario in the amount of $115.5 million; thirdly, a $58.9 million mortgage secured against the 17 properties in the Finning portfolio; fourthly, a $35.3 million mortgage secured against the Circuit City Distribution Centre purchased in July 2002; and finally, a $163 million 10-year mortgage bond secured against the Place Bell office tower with a hedged rate of 6.83%. The mortgage payable balance was however reduced by $31 million with the sale of the Shawnessy shopping centre when the mortgage was assumed by the purchaser.

The balance of the net increase is represented by an additional eight mortgages secured during the year being offset by one mortgage that was discharged as well as the regular monthly self-amortizing principal payments made in the normal course of business operations.

The mortgages bear interest at the weighted average rate of 7.4% (2001 – 7.7%) and mature between 2003 and 2023. To reduce risk, management has attempted to closely match the weighted average term to maturity of the mortgages of 12.8 years to the remaining average lease term of 12.2 years. Going forward, management anticipates the REIT will be able to renew its debt as it matures. Future principal payments as a percentage of mortgages payable are as follows:

2003	2004	2005	2006	2007	Thereafter
2.8%	5.0%	4.5%	4.8%	6.1%	76.8%

Bank Indebtedness Year end debt included bank indebtedness of $1.3 million (2001 – $2.3 million) which bears interest at rates approximating the prime rate of a Canadian chartered bank. This debt is secured by fixed charges over certain income properties and is due on demand.

Bank indebtedness (including liability under letters of credit) increased to its maximum allowable amount of almost $180 million during the year with actual loans totaling approximately $153 million. These funds, which were borrowed under the REIT's line of credit, were primarily used, together with a portion of the proceeds from the Bell data/office centre bonds, to purchase the Place Bell tower in Ottawa in February 2002 as well as providing the equity for the three US transactions that closed in the second half of 2002. The line of credit was increased by $40 million on a temporary basis to accommodate these purchases. The indebtedness was repaid completely in November 2002 once permanent financing was secured on the Place Bell project.

Accounts Payable Accounts payable increased by $7.4 million from $35.3 million at December 31, 2001 to $42.7 million at December 31, 2002. The increase reflects the continual increase in the level of economic activity that the REIT is experiencing with ongoing acquisitions throughout the year. See "Changes in Financial Position – Income Properties" above.

UNITHOLDERS' EQUITY

Unitholders' equity increased by $12.7 million between December 31, 2001 and December 31, 2002 primarily as a result of proceeds from the REIT's distribution reinvestment program and the exercise of options by officers and trustees of the REIT during the year ended December 31, 2002.

Liquidity and Capital Resources

For the year ended December 31, 2002, cash flow provided from operating activities was $88.3 million compared to $76.1 million for the same period last year.

This cash provided from operating activities, together with proceeds from the issue of units, conventional mortgage financing and short term bank financing (including a $140 million operating/acquisition facility with a Canadian chartered bank), have been used to meet all of the REIT's liquidity requirements, which principally consisted of funding net property acquisitions of $379.5 million and distributions to unitholders of $84.3 million for the year ended December 31, 2002.

Management expects to be able to continue to meet all of the REIT's ongoing obligations and to finance future growth through the issue of new equity as well as by using conventional real estate debt, short term financing from the bank and through a related party and the REIT's stable cash flow. In fact, the REIT currently has acquisition capacity of approximately $200 million which would increase the debt ratio to approximately 63%.

Management's Discussion & Analysis

For the year ended December 31, 2002

Accounting Changes

Effective January 1, 2002 the REIT adopted the new CICA recommendations on stock-based compensation and other stock-based transactions. The standard sets out a fair value based method of accounting, which is required for certain, but not all, stock-based transactions. The section must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new standard permits the REIT to continue its existing policy that no compensation cost is recorded on the grant of unit options to employees. However, the standard does require that the REIT disclose for each period, the proforma net earnings and the proforma earnings per unit, as if the fair value based method had been used to account for the employee unit option awards.

The REIT does not believe the adoption of this standard will have a material impact on the REIT's financial conditions or results of operations.

In accordance with the new Section, the accounting standard was applied to all awards granted subsequent to January 1, 2002, the effective date of the Section. Based on the total number of options granted in 2002, if the Trust had used the fair value method of accounting for its unit option plan, the proforma net earnings would have been $83.8 million and proforma basic net earnings per unit would have been $1.19 for the year ended December 31, 2002.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: distribution yield of 8.56%, expected volatility of 10.2%, risk-free interest rates of 5.4%, and expected lives of ten years.

Subsequent Event

Subsequent to year end, in keeping with its philosophy of divesting non-strategic assets, the REIT sold its property at 250 University Avenue in downtown Toronto for a price of $22.5 million, and realized a gain of approximately $3.3 million.

Risks and Uncertainties

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 65% of aggregate assets and by obtaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, the weighted average term to maturity of long-term debt is closely matched to the remaining average lease terms.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (office, industrial and retail) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which account for more than 5% of the rentals from income properties of the REIT are TCPL, Bell Canada and Bell Mobility, but each individually represent less than 15% of the rentals from income properties of the REIT and currently are at least A rated by a recognized rating agency.

The REIT is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets.

The REIT has been structured to ensure that mandated investment guidelines and operating criteria are strictly adhered to. These policies govern such matters as the type and location of properties that the REIT can acquire, the maximum leverage allowed, the requirement for appropriate insurance coverage as well as environmental policies.

The REIT has maintained its ability to properly manage both operational and financial risks. The REIT's properties are leased under long-term arrangements to a diversified base of creditworthy tenants with strong covenants and are financed with long-term fixed rate mortgages.

Other than as described above, no single tenant is critical to the REIT's ability to meet its financial obligations. The REIT's broad tenant base assists in attempting to fulfill its primary goal of maintaining a predictable cash flow. Risk is further minimized through a low vacancy rate and relatively few short to medium-term lease renewals.

Auditors' Report

To the Unitholders of H&R Real Estate Investment Trust

We have audited the consolidated balance sheets of H&R Real Estate Investment Trust as at December 31, 2002 and 2001 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Toronto, Canada
February 10, 2003

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of H&R Real Estate Investment Trust which is responsible for their consistency, integrity and objectivity. The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are consistent, efficient and of a high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements and giving an opinion thereon.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee. This Committee meets regularly with management and the auditors who have full and free access to the Committee.

Thomas J. Hofstedter
President and Chief Executive Officer

Eric Cohen
Chief Financial Officer

Consolidated Balance Sheets

(In thousands of dollars)

December 31, 2002 and 2001

	2002	2001
Assets		
Income properties (note 3)	$ 1,922,200	$ 1,388,782
Mortgages receivable (note 4)	60,079	80,575
Other assets (note 5)	68,615	65,499
	$ 2,050,894	$ 1,534,856
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	$ 1,239,224	$ 742,611
Bank indebtedness (note 8)	1,280	2,253
Accounts payable	42,742	35,255
	1,283,246	780,119
Unitholders' equity:		
70,910,818 units (2001 – 69,771,049) (note 9(a))	767,484	754,737
Cumulative foreign translation adjustment	164	–
	767,648	754,737
	$ 2,050,894	$ 1,534,856

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

Edward Gilbert
Trustee

Ronald C. Rutman

Consolidated Statements of Earnings

(In thousands of dollars, except per unit amounts)

Years ended December 31, 2002 and 2001

	2002	2001
Operating revenue:		
Rentals from income properties	$ 288,511	$ 199,205
Mortgage interest income and other	7,989	13,909
	296,500	213,114
Operating expenses:		
Property operating costs	109,398	72,668
Mortgage and other interest (note 16)	79,251	54,224
Depreciation of income properties	15,395	10,906
Amortization of deferred expenses	4,062	2,787
	208,106	140,585
Operating income from properties	88,394	72,529
Trust expenses	4,372	3,835
Net earnings	$ 84,022	$ 68,694
Basic net earnings per unit (notes 2 and 10)	$ 1.20	$ 1.18
Diluted net earnings per unit (notes 2 and 10)	1.19	1.17

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(In thousands of dollars)

Years ended December 31, 2002 and 2001

	2002	2001
Unitholders' equity, beginning of year	$ 754,737	$ 510,847
Proceeds from issuance of units	13,164	253,544
Issue costs	(121)	(10,578)
Net earnings	84,022	68,694
Distributions to unitholders	(84,318)	(67,770)
Unitholders' equity, end of year	$ 767,484	$ 754,737

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)

Years ended December 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Net earnings	$ 84,022	$ 68,694
Items not affecting cash:		
Depreciation	15,395	10,906
Amortization of deferred leasing costs	3,548	2,541
Gain on sale of income properties	(1,405)	(795)
Funds from operations	101,560	81,346
Net changes in:		
Amortization of deferred financing costs	514	246
Other non-cash operating items (note 11)	(13,814)	(5,485)
	88,260	76,107
Financing:		
Bank indebtedness	(973)	(95,932)
Mortgages payable:		
Acquisitions	382,168	66,039
Repayments	(30,652)	(25,818)
Proceeds from issuance of units, net	13,043	242,966
Distributions to unitholders	(84,318)	(67,770)
	279,268	119,485
Investments:		
Income properties:		
Proceeds on disposition of income properties	5,146	11,340
Acquisitions	(379,514)	(193,273)
Mortgages receivable	(7,283)	8,179
	(381,651)	(173,754)
Increase (decrease) in cash and cash equivalents	(14,123)	21,838
Cash and cash equivalents, beginning of year	24,331	2,493
Cash and cash equivalents, end of year	$ 10,208	$ 24,331
Supplemental cash flow information:		
Interest paid	$ 78,857	$ 60,272
Supplemental disclosure of non-cash investing activities:		
Acquisitions of income properties through assumption of mortgages payable	175,280	244,281
Acquisitions of income properties through repayment of mortgages receivable	42,760	87,697
Mortgages payable assumed by purchasers on disposition of income properties	30,983	6,233
Mortgages receivable granted to purchasers on disposition of income properties	14,981	–

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

H&R Real Estate Investment Trust (the "Trust") is an unincorporated trust with each unitholder participating pro rata in distributions of income and, in the event of termination of the Trust, participating pro rata in the net assets remaining after satisfaction of all liabilities.

1. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and with the recommendations of the Canadian Institute of Public and Private Real Estate Companies and reflect the following policies:

(a) Income properties:
Income properties are recorded at the lower of cost less accumulated depreciation and net recoverable amount. Depreciation of buildings is recorded on the 5% sinking fund basis to fully amortize the cost of buildings over 40 years.

(b) Deferred expenses:
Leasing costs, such as commissions and other tenant inducements, are deferred and amortized on a straight-line basis over the terms of the related leases. Mortgage financing costs are deferred and amortized over the terms of the related debt.

(c) Accrued rent receivable:
Certain leases call for rental payments that vary significantly over their term. The Trust records the rental revenue from these leases on a straight-line basis, resulting in accruals for rent that are not billable or due until future years. These amounts are recorded as accrued rent receivable.

(d) Co-ownerships:
The Trust carries out a significant portion of its activities through co-ownership agreements and records its proportionate share of assets, liabilities, revenue, expenses and cash flows of all co-ownerships in which it participates.

(e) Income taxes:
Pursuant to the terms of the Declaration of Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act (Canada). Therefore, no provision for income taxes is required.

(f) Unit option plan:
The Trust has an option plan available for officers, employees and certain trustees as disclosed in note 9(b). No compensation expense is recorded at the time the options are issued. Any consideration paid by option holders on exercise of unit options is credited to unitholders' equity.

(g) Cash and cash equivalents:
Included in cash and cash equivalents are short-term investments which have maturities of three months or less at the date of acquisition.

(h) Use of estimates:
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(i) Foreign currency translation:
The Trust accounts for its investments in the United States ("foreign operations") as self-sustaining operations. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at the average exchange rates for the year. The foreign currency translation adjustment is recorded as a separate component of unitholders' equity until there is a disposition of the Trust's investment in the foreign operations.

2. New accounting policy – stock-based compensation:

Effective January 1, 2002, the Trust adopted the new recommendations of The Canadian Institute of Chartered Accountants ("CICA") with respect to Stock-based Compensation and Other Stock-based Payments, Section 3870. The Trust applies the settlement method of accounting for stock-based compensation awards granted. Accordingly, no compensation cost has been recognized for its incentive unit option plan and direct unit purchase plan. The only stock-based compensation or payment granted by the Trust is pursuant to its unit option plan. For a description of the plan refer to note 9(b). The accounting for the unit options has not changed as a result of the new accounting standard.

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

In accordance with Section 3870, the accounting standard is being applied to all awards granted subsequent to January 1, 2002, the effective date of Section 3870. Based on the total number of options granted in 2002, if the Trust had used the fair value method of accounting for its unit option plan, the pro forma net earnings would have been $83,799 for the year ended December 31, 2002 (pro forma basic net earnings per unit of $1.19 and pro-forma diluted net earnings per unit of $1.18 for the year ended December 31, 2002).

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: distributions yield of 8.56%, expected volatility of 10.2%, risk-free interest rates of 5.4%, and expected lives of ten years.

3. Income properties:

2002	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**$ 388,070**	**$ –**	**$ 388,070**
Buildings	**1,576,820**	**42,690**	**1,534,130**
	$ 1,964,890	**$ 42,690**	**$ 1,922,200**

2001	Cost	Accumulated depreciation	Net book value
Land	$ 274,521	$ –	$ 274,521
Buildings	1,142,561	28,300	1,114,261
	$ 1,417,082	$ 28,300	$ 1,388,782

4. Mortgages receivable:

The mortgages receivable are secured by real property, bear interest at a weighted average rate of 8.8% (2001 – 10.9%) per annum and are repayable between 2003 and 2008. In most cases, the Trust has options to acquire interests in the properties subject to mortgages.

5. Other assets:

	2002	2001
Cash and cash equivalents	**$ 10,208**	$ 24,331
Deferred expenses (note 6)	**28,859**	21,053
Prepaid expenses and sundry assets	**11,504**	6,595
Accrued rent receivable	**10,913**	9,328
Accounts receivable	**7,131**	4,192
	$ 68,615	$ 65,499

6. Deferred expenses:

2002	**Cost**	**Accumulated amortization**	**Net book value**
Leasing	**$ 28,400**	**$ 7,341**	**$ 21,059**
Financing	**8,818**	**1,018**	**7,800**
	$ 37,218	**$ 8,359**	**$ 28,859**

2001	Cost	Accumulated amortization	Net book value
Leasing	$ 24,053	$ 5,001	$ 19,052
Financing	2,538	537	2,001
	$ 26,591	$ 5,538	$ 21,053

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

7. Mortgages payable:

The mortgages payable are secured by the income properties, bearing fixed interest with a weighted average year end rate of 7.4% (2001 – 7.7%) per annum and maturing between 2003 and 2023. Included in mortgages payable are U.S. $51,649 (Cdn. $81,606) at December 31, 2002 (2001 – U.S. $8,063 (Cdn. $12,819)). Future principal payments are as follows:

Year ending December 31:	
2003	$ 34,432
2004	62,177
2005	55,268
2006	59,773
2007	75,333
Thereafter	952,241
	$ 1,239,224

Bank indebtedness:

Bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank, is secured by fixed charges over certain income properties and is due on demand. At December 31, 2002, the prime interest rate was 4.5% (2001 – 4.0%) per annum.

Unitholders' equity:

The beneficial interests in the Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions.

H&R Developments and certain others, who are co-owners with the Trust in certain properties have the right and the obligation to exchange their interest in the properties, before December 23, 2036, for an aggregate of 5,749,585 units, subject to adjustment.

(a) The following units are issued and outstanding:

	Units issued and outstanding
As at December 31, 2000	49,092,781
Issued on March 1, 2001 (at a price of $12.20 per unit)	8,300,000
Issued on November 2, 2001 (at a price of $12.45 per unit)	11,500,000
Issued under distribution reinvestment plan and direct unit purchase plan	137,268
Options exercised	741,000
As at December 31, 2001	69,771,049
Issued under distribution reinvestment plan and direct unit purchase plan	407,771
Options exercised	731,998
As at December 31, 2002	70,910,818

(b) Incentive unit option plan:

The Trust may grant options to its officers, employees and certain trustees for up to 5,800,000 units. The exercise price of each option approximates the market price of the Trust's units on the date of grant. The options vest at 33.3% per year from the grant date, being fully vested after three years and expire ten years after the date of the grant.

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

A summary of the status of the plan as at December 31, 2002 and 2001 and the changes during the years ended on those dates are as follows:

	2002		2001	
Options	Units	Weighted average exercise price	Units	Weighted average exercise price
Outstanding, beginning of year	3,805,832	$ 11.42	3,252,629	$ 10.71
Granted	775,000	13.12	1,294,203	12.43
Exercised	(731,998)	10.54	(741,000)	10.07
Outstanding, end of year	3,848,834	11.93	3,805,832	11.42
Options exercisable at year end	2,058,376	11.37	1,974,240	10.92

The options outstanding at December 31, 2002 are exercisable at varying prices ranging from $9.17 to $13.12 with a weighted average remaining life of 7.6 years. The vested options are exercisable at varying prices ranging from $9.17 to $12.58 with a weighted average remaining life of 6.6 years.

(c) Unitholders' Rights Plan:

The Trust has adopted a Unitholders' Rights Plan ("Rights Plan") effective May 24, 2000 to ensure that any takeover bid made for the units of the Trust would be made to all Unitholders, treat all Unitholders equally, and provide the Board of Trustees with sufficient time to consider any such offer and encourage competing bids to emerge. The Rights Plan grants Unitholders the right to acquire, under certain circumstances, additional units at a 50% discount from it's then current market price. The Trust, with the consent of its Unitholders or rights holders, may redeem each right at a nominal price. The Rights Plan will expire at the Annual Meeting of Unitholders in 2003, unless terminated earlier.

10. Per unit amounts:

The following table sets forth computation of basic net earnings per unit and diluted net earnings per unit using weighted average units outstanding and adjusted weighted average units, respectively:

	2002	2001
Weighted average units outstanding	70,288,657	58,241,529
Effect of dilutive securities:		
Employee unit options	521,822	364,543
Adjusted weighted average units and assumed conversions	70,810,479	58,606,072

11. Changes in other non-cash operating items:

	2002	2001
Deferred expenses	$ (11,868)	$ (12,548)
Prepaid expenses and sundry assets	(4,909)	542
Accrued rent receivable	(1,585)	(1,585)
Accounts receivable	(2,939)	(712)
Accounts payable	7,487	8,818
	$ (13,814)	$ (5,485)

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

12. Risk management and fair values of financial assets and financial liabilities:

(a) Risk management:

The Trust is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 65% of aggregate assets and by attaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, the weighted average term to maturity of long-term debt is closely matched to the remaining average lease terms.

The Trust is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the Trust's holdings so that it owns several categories of properties (office, industrial and retail) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants other than investment grade tenants accounts for a significant portion of the cash flow. TransCanada PipeLines Limited and Bell Canada are the only tenants that account for more than 10% of the Trust's rentals from income properties.

The Trust is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets.

(b) Fair values:

The fair values of the Trust's accounts receivable and other assets, bank indebtedness and accounts payable approximate their carrying amounts due to the relatively short periods to maturity of the instruments.

The fair values of the mortgages receivable approximate their carrying amounts due to relatively short periods to maturity of the instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using year-end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages payable at December 31, 2002 has been estimated at $1,271,606 (2001 – $759,228) compared with the carrying value of $1,239,224 (2001 – $742,611).

13. Co-ownership activities:

These financial statements include the Trust's proportionate share of assets, liabilities, revenue, expenses and cash flows as follows:

	2002	2001
Assets	$ 304,423	$ 301,746
Liabilities	158,810	162,753
Revenue	65,025	70,666
Expenses	47,262	48,185
Operating income from properties	17,763	22,481
Cash flows provided by operations	16,264	23,650
Cash flows used in financing	(4,177)	(18,029)
Cash flows provided by (used in) investments	(599)	5,756

Under the terms of the co-ownership agreements, the Trust is only responsible for its proportionate share of the obligations of the co-ownerships.

14. Distributable income:

Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust as follows:

	2002	2001
Net earnings	$ 84,022	$ 68,694
Depreciation	15,395	10,906
Accrued rent	(1,585)	(1,585)
Distributable income	$ 97,832	$ 78,015
Distributable income per unit (note 10)	$ 1.39	$ 1.34
Cash distributions per unit	$ 1.20	$ 1.16

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit and unit amounts)

Years ended December 31, 2002 and 2001

15. Related party transactions:

The Trust has entered into an agreement with H&R Property Management Ltd. (the "Property Manager"), a company affiliated with H&R Developments (note 9), to provide property management services concerning the properties owned by the Trust and support services in connection with the acquisition and development activities of the Trust. The current agreement is for five years expiring December 31, 2004 with three automatic five-year extensions. During the year, the Trust paid fees pursuant to this agreement of $10,058 (2001 – $7,478), of which $3,691 (2001 – $2,862) were capitalized to the cost of the income properties acquired.

The Trust has a mortgage payable to Batise Investments Limited, an owner of H&R Developments, in the amount of $11,673 (2001 – $12,819), bearing interest at LIBOR plus 1.5% per annum. The related mortgage interest expense was $607 (2001 – $835).

16. Mortgage and other interest expense:

	2002	2001
Mortgage interest	$ 75,262	$ 50,142
Interest on bank indebtedness	3,989	4,082
	$ 79,251	$ 54,224

17. Segment disclosures:

Geographic information:
Segmented information on rentals from income properties and identifiable assets by geographic region is as follows:

	2002			2001		
	Canada	United States	Total	Canada	United States	Total
Rentals from income properties from external sources	$ 283,071	$ 5,440	$ 288,511	$ 196,370	$ 2,835	$ 199,205
Income properties	1,807,984	114,216	1,922,200	1,367,072	21,710	1,388,782

Revenues are attributed to countries based on location of the properties.

18. Contingencies:

In the normal course of operations, the Trust has issued letters of credit in connection with certain financings and acquisitions. As at December 31, 2002, the Trust has outstanding letters of credit totalling $22,450 (2001 – $19,794), including $20,326 (2001 – $13,561), which has been pledged as security for particular mortgages payable. These letters of credit are secured in the same means as the bank indebtedness.

19. Comparative figures:

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

20. Subsequent event:

Subsequent to year end, the Trust sold an office property for approximately $22,500. This was settled by the purchaser assuming the existing mortgage payable of approximately $11,050. The Trust realized a gain of approximately $3,300 on the sale.

Corporate Information

Trustees and Officers

Unitholder Information

H&R Real Estate Investment Trust
3625 Dufferin Street, Suite 500
Downsview, Ontario, Canada M3K 1N4
Telephone: 416 635 7520
Fax: 416 398 0040
e-mail: info@hr-reit.com
Web site: www.hr-reit.com

Registrar and Transfer Agent:
CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada, M5C 2W9
Telephone: 416 643 5500 or 1 800 387 0825
Fax: 416 643 5501
e-mail: inquiries@cibcmellon.com
Web site: www.cibcmellon.com

Auditors
KPMG LLP

Legal Counsel
Fraser Milner Casgrain

Investor Information
Analysts, Unitholders, and others seeking financial data should contact: Eric Cohen, Chief Financial Officer
(416) 635-7520

Taxability of Distributions
53% of the distributions made by the REIT to Unitholders during 2002 were tax deferred. Management estimates that 50% of the distributions to be made by the REIT in 2003 will be tax deferred.

Plan Eligibility
RRSP RRIF DPSP

Stock Exchange Listing
Units of H&R REIT are listed on the Toronto Stock Exchange under the trading symbol 'HR.UN'.

Annual Meeting of Unitholders
May 20, 2003,
11:00 a.m.
TSX Conference Center
The Exchange Tower,
130 King Street West
Toronto, ON.

UNITHOLDER DISTRIBUTION REINVESTMENT PLAN AND UNIT PURCHASE PLAN

Since January 1, 2000, H&R REIT has offered registered holders of its units resident in Canada the opportunity to participate in its Unitholder Distribution Reinvestment Plan (the "DRIP") and Unit Purchase Plan.

The DRIP allows participants to have their monthly cash contributions reinvested in additional units of H&R REIT at the weighted average price of the units on the TSE for the five trading days (the "Average Market Price") immediately preceding the cash distribution date. In addition, participants will be entitled to receive an additional distribution equal to 3% of each cash distribution reinvested pursuant to the DRIP which will be reinvested in additional units.

The Unit Purchase Plan allows participants to purchase additional units on a monthly basis at the Average Market Price subject to a minimum purchase of $250 per month (up to a maximum of $13,500 per year) for each participant.

For more information on the DRIP and/or the Unit Purchase Plan, please contact us by email through the "Contact Us" webpage of our website or contact the plan agent: CIBC Mellon Trust Company, P.O. Box 7010, Adelaide Street Postal Station, Toronto, Ontario M5C 2W9, Tel: 416 643 5500 (or for callers outside of the 416 area code: 1 800 387 0825), Fax: 416 643 5501, Email: inquiries@cibcmellon.com.

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